

Message Text

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11
ACTION NEA-12

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

AGR-20 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DODE-00 PA-03 USIA-15 PRS-01

DRC-01 ABF-01 L-03 /204 W

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R 181245Z SEP 73
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 1131
INFO AMEMBASSY NEW DELHI
AMEMBASSY DACCA
AMEMBASSY MANILA
USMISSION OECD PARIS
AMCONSUL KARACHI
AMCONSUL LAHORE

UNCLAS ISLAMABAD 7981

PASS TREASURY
MANILA FOR USADB

E.O. 11652: N/A
TAGS: EFIN, EGEN, EAID, PK, SWEL
SUBJ: PAKISTAN ADOPTS EMERGENCY FLOOD RELIEF TAX MEASURES

REF: A) ISLAMABAD 7870 (NOTAL (B) TOAID A-105

(C) ISLAMABAD 7880 (NOTAL)

1. SUMMARY: ONE EVE HIS DEPARTURE FOR U.S. VISIT, PRIMIN
ANNOUNCED SET OF EMERGENCY TAX MEASURES AND NEW IMPORT
RESTRICTIONS. MEASURES INTENDED TO HELP OFFSET CUTS IN
REVENUE COLLECTIONS AND INCREASES IN EXPENDITURES DIRECTLY
RELATED TO FLOOD. LARGEST CONTRIBUTORS TO INCREASED REVENUES
WILL BE A) IMPORT SURCHARGE ON ALL PREVIOUSLY DUTIABLE ITEMS
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EXCEPT MACHINERY, B) EXCISE TAX ON SUGAR, C) INCOME TAX

SURCHARGE. WE ESTIMATE NEW MEASURES WILL YIELD OVER RS. 760 MILLION (\$76.8 MILLION) ADDED REVENUES THIS EQUAL TO ABOUT 10 PERCENT OF PRE-FLOOD TAXATION LEVEL. PREMIER ALSO ANNOUNCED FIRM GOP INTENTION TO AVOID RESORT TO INFLATIONARY DEFICIT FINANCING AND TO CUT DEFENSE AND DEVELOPMENT EXPENDITURES. END SUMMARY.

2. ON EVE OF HIS DEPARTURE FOR U.S. PRIMIN IN A SPEECH GIVEN NATIONAL RADIO AND T.V. COVERAGE (REF A) ANNOUNCED INTER ALIA SET OF ECONOMIC MEASURES DESIGNED TO MEET PART OF RELIEF AND REHABILITATION COST. HE STRESSED THE NEED FOR SELF-HELP MEASURES QUOTE EXERTION AND SACRIFICE UNQUOTE, WHILE EXPRESSING GRATITUDE TO U.S. AND OTHER DONORS FOR THEIR PROMPT ASSISTANCE.

3. OF SET OF NEW MEASURES, LARGEST CONTRIBUTION TO REVENUES WILL PROBABLY BE GENERATED BY A 25 PERCENT SURCHARGE ON THE DUTY OTHERWISE PLACED ON ALL DUTIABLE ITEMS EXCEPT MACHINERY. WE EXPECT THIS INCREMENT TO YIELD OVER RS. 263 MILLION (26.6 MILLION EQUIVALENT) REMAINDER THIS FISCAL YEAR. IRON AND STEEL MANUFACTURES WILL YIELD RPS 60 MILLIONS (EQUIVALENT \$6.1 MILLION) OF THIS TOTAL, FOLLOWED BY RPS 46.9 MILLION (\$4.7 MILLION) FROM POL.

4. THE TAX ON BETEL LEAVES (PAAN) IMPORTS, WHICH ARE SOMTHING OF A SYMBOL OF LUXURY, WILL NOW BE DOUBLED, AND YIELD AN INCREMENT OF RS. 45 MILLION. IN LUXURY CATEGORY CIGARETTE EXCISE TAXES WERE ALSO INCREASED, TOGETHER WITH DUTY ON SPICES. THESE TWO ITEMS TOGETHER WILL YIELD ABOUT RPS 56 MILLION.

5. A NEW EXCISE TAX WAS PLACED ON RETAIL SALES OF SUGAR BY MONOPOLY GOP OUTLETS OF RS. 544 PER TON (\$54.95 EQUIVALENT). THIS WILL YIELD ABOUT RPS 245 MILLION THE REMAINDER OF THIS YEAR.

6. A TEN PERCENT SURCHARGE WAS PLACED UPON ALL INCOME AND SUPER TAX (I,E. A FORM OF INCOME TAX) LIABILITIES WITH A LOWER SURCHARGE FOR SOME SPECIAL GROUPS SUCH AS JEWELERS, WHO WERE ALREADY SUBJECT TO SPECIAL TAXES. WE ESTIMATE SURCHARGE UNCLASSIFIED

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WILL YIELD RPS 105 MILLION.

7. TRACTORS AND TRACTOR PARTS (FORMERLY EXEMPT FROM DUTY) ARE NOW SUBJECT TO A 10 PERCENT AD VALOREM DUTY. WE ESTIMATE REVENUE YIELD ABOUT RPS 10 MILLION.

8. BASIS OF TAXING SMALL CARS (CF VALUE BELOW \$1800) CHANGED. THESE CARS WILL NOW BE SUBJECT TO IMPORT DUTY AD VALOREM OF 55

PERCENT PLUS A SALES TAX OF 20 PERCENT THEREAFTER FOR A TOTAL TAX OF 86 PERCENT OF LANDED VALUE. TAX ON LARGER AUTOS REMAINS UNCHANGED FROM SLIDING SCALE RUNNING UPTO 200 PERCENT ESTABLISHED IN JUNE 1973. INCREMENTAL AUTO TAXES WILL YIELD ABOUT RS. 32 MILLION.

9. PROVINCES HAVE ANNOUNCED SPECIAL FLOOD CESSES (SURCHARGES ON OTHER TAXES) WILL BE IMPOSED. DETAILS OF THESE CESSES, OTHER THAN ONE WITH A SLIDING SCALE ON MOVIE TICKETS UP TO 25 PAISAS TAX EQUIVALENT 2.5 CENTS ON MOST EXPENSIVE TICKETS NOT YET ANNOUNCED.

10. THE GOP ALSO ANNOUNCED THAT FORGIGGNESS OF RUPEE LIABILITIES OF PROVINCIAL GOVERNMENTS TO CENTRAL GOVERNMENT, WHICH PREVIOUSLY GRANTED TO LESS DEVELOPED BALUCHISTAN AND N.W.F., WOULD NOW BE ALSO GRANTED TO PUNJAB AND SIND. ALTHOUGH LARGELY A BOOKKEEPING TRANSFER, THIS WILL FREE PROVINCIAL GOVERNMENTS FROM A FINANCIAL RESTRAINT WHICH HAS OFTEN HINDERED THEIR INITIATIVE.

11. COMBINED IMPACT OF THESE MEASURES WILL BE TO HELP OFFSET FLOOD-CREATED REDUCTION IN CENTRAL GOVERNMENT REVENUES FROM EXPORT DUTIES ON RICE AND COTTON, WHICH WE ESTIMATE RPS 670 MILLION, AND ESTIMATED REDUCTION IN PROVINCIAL TAXES OF RPS 230G MILLION, TOTAL REVENUE LOSSES WILL BE GREATER THAN THIS BECAUSE OF REDUCED ECONOMIC ACTIVITY, DIVERSION OF TAX ENFORCEMENT PERSONELL, ETC... BUT WE CALCULATE DIRECT LOSSES AS ABOVE.

12. PRIMIN FIRMLY STATED GOP INTENTION NOT TO DEPEND UPON DEFICIT FINANCE. HE ANNOUNCED THAT DEFENSE AND DEVELOPMENT EXPENDITURES WOULD BE CUT, AND ECONOMIES IN SUCH MATTERS AS FOREIGN ELEGATIONS WOULD BE STRICTLY ENFORCED. PRIMIN SAID THAT THE GOVERNMENT HAS DECIDED TO INCREASE BASMATI RICE (SUPER FINE) EXPORTS AND DISCOURAGE ITS DOMESTIC CONSUMPTION.

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13. COMMENTS: CONTEXT OF ANNOUNCEMENT WAS BOTH FLOOD RELIEF AND INFLATION. ANNOUNCEMENT REFLECTS FIRM INTENTION OF GOP TO IMPLEMENT SELF-HELP MEASURES FOR FLOOD RECOVERY WHILE FIGHTING INFLATION. NOTABLY, NO DATE FOR RESCINDING OF SPECIAL TAX MEASURES WAS GIVEN AND WE EXPECT MOST, IF NOT ALL NEW TAXES WILL BE CONTINUED THROUGH NEXT FISCAL YEAR. QUICK CRITICISM OF NEW TAX MEASURES BY THE BUSINESS COMMUNITY SUGGEST IT SUSPECTS NEW TAXES HERE TO STAY FOR A WHILE.

14. WE HAVE MADE NO ESTIMATES OF IMPACT OF NEW TAX MEASURES UPON DEMAND, AND OUR REVENUE ESTIMATES ASSUME NO CHANGE FROM RELATIVELY SLUGGISH GROWTH OF NEW INVESTMENT AND INDUSTRIAL EMPLOYMENT REGISTERED IN LAST FEW MONTHS. SEPTEL FOLLOW ON IMPORT RESTRICTIONS.

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